

FINRA Examines Execution

December 22, 2014

For the past year, FINRA has emphasized that it is stepping up consideration of whether broker-dealers are obtaining best execution of transactions in equities, options, and fixed income securities. It also has pointedly reminded firms of their duty to conduct “a regular and rigorous review of execution quality to assure that order flow is directed to markets providing the most beneficial terms to customers.” FINRA’s enhanced efforts include new surveillance patterns to monitor best execution in both equity and fixed income securities. As to equity securities, FINRA’s market regulation department is reviewing the processes and procedures of a targeted group of broker-dealers regarding order routing and execution quality of customer orders in exchange-listed stocks. As part of that review, in July these firms received a targeted examination letter requesting a substantial amount of information on their procedures for exchange order routing and limit orders. At a conference in September, FINRA chair and CEO Rick Ketchum warned that “priced order routing deserves more attention [and] is going to be ‘a huge priority’ for us in the next six months.” As to its fixed income securities surveillance efforts, FINRA is assessing the execution price a customer receives from a broker-dealer relative to that broker-dealer’s other recently executed customer transactions on the same side of the market. As to options, FINRA is reviewing situations where a broker-dealer potentially ignores a favorable price on one options market and executes a trade on another market to its customers’ detriment. FINRA’s increased focus on best execution is **a reminder for all broker-dealers to review their policies and procedures for exercising reasonable diligence to determine the best market on behalf of customers.** The July targeted examination letter provides a strong indication regarding at least some of FINRA’s concerns.

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